



Canada's Best Oil Stock Delivers a Solid 2nd Quarter 2019

Description

Oil keeps whipsawing widely as a swathe of good and bad news sparks extreme reactions in energy markets. The latest event to have a significant impact on the price of crude was Trump's announcement that he was imposing a 10% tariff on US\$300 billion of goods from China, causing oil to dip sharply.

While this is concerning for energy investors, it shouldn't deter them from boosting their exposure to [high-quality](#) energy stocks. One that stands out for all the right reasons is intermediate upstream oil producer **Parex Resources** ([TSX:PXT](#)).

Quality assets

The driller is focused on [Colombia](#), where it has mineral concessions totalling 2.3 million acres in the Llanos and Magdalena Basins. Parex is one of the few upstream oil producers to weather the prolonged oil slump in solid shape. This can be attributed to a range of factors, the key being its debt-free balance sheet and high-quality, developed oil-producing assets.

As at the end of 2018, Parex had proven and probable oil reserves of 185 million barrels, which, after applying a 10% discount in accordance with industry methodology, have an after-tax value of US\$3.4 billion. After deducting total debt, including decommissioning, lease, and other obligations, which totalled US\$61 million at the end of the second quarter 2019 and adding cash of US\$318 million, those reserves have an after-tax net asset value of US\$3.7 billion.

That equates to \$32 per share at the current exchange rate, which is 51% higher than the current market price, highlighting the considerable upside available to investors should oil prices recover and market confidence return.

The potential Parex holds is underscored by the value of its oil reserves being calculated using an average 2019 Brent price of US\$63.25, which is lower than the US\$66 per barrel averaged since the start of 2019.

Strong results

Parex's ability to deliver value for investors in a difficult operating environment is illustrated by its impressive second-quarter 2019 results. The driller reported that oil production had surged by 23% compared to a year earlier to 52,252 barrels daily, which was 98% weighted to crude.

Even after allowing for oil's decline in value since mid-May 2019, Parex still reported an impressive operating netback of US\$41.25 per barrel, which was only 8% lower than the equivalent period in 2018.

Funds from operations jumped to US\$1 per share on a diluted basis compared to a negative US\$0.05 per share a year earlier, although diluted net income of US\$0.67 per share was 43% lower. The notable increase in oil output can be attributed to new wells coming online and workovers completed since the end of the second quarter 2018 boosting well productivity.

The primary reason for the decline in net income is a weaker Brent, with the average price for the second quarter averaging US\$68.52 a barrel compared to US\$74.97 a year earlier.

Parex's ability to access international Brent pricing gives it a handy advantage over its peers operating solely in North America. This is because the international benchmark trades at a premium to West Texas Intermediate (WTI), which is currently around US\$60 per barrel, and analysts expect that premium to remain for the foreseeable future.

This is combined with Parex's low operating expenses, which is the reason for the driller's solid netback being significantly higher than upstream oil producers operating solely in Canada.

Foolish takeaway

For investors seeking exposure to crude, Parex is the only high-quality upstream oil stock to consider. Its rock-solid balance sheet with no long-term debt and considerable cash, quality assets, enviable history of exploration success, and ability to grow production at a sturdy clip make it a must-own energy stock.

Parex's very attractive valuation, which sees it trading at a deep discount of 49% to the net asset value of its oil reserves, emphasizes why now is the time to buy.

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